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# Report of the Treasurer to Town Meeting



May 2012

Town of Arlington, MA

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# Report of the Treasurer to Town Meeting

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## Overview

This Treasurer's report will describe the Town of Arlington's current cash flow, investments, and debt for fiscal year 2012 and, where appropriate, fiscal year 2013. While the Treasurer is not directly involved in Town and School operations, the Office of the Treasurer & Collector of Taxes is responsible for the collection of all Real Estate, Personal Property, Motor Vehicle Excise and Water & Sewer bills, the processing of account receivables for Town and School departments, as well as managing the cash flow and investments that provide the financial means for other departments and Trust Fund Commissions to continue their activities.

Decisions that Town Meeting makes regarding fiscal issues such as budgets, capital expenditures, debt or collective bargaining, as well as organizational restructuring, have a strong impact on Town finances. Based on those decisions, the Treasurer's office will manage cash flow, deposits, investments and debt to maximize the Town's financial resources and provide the fullest support possible to all departments and programs.

I hope that, at the end of this report, Town Meeting members, Town officials and citizens of Arlington will understand the various elements that make up the Town's financial position for the upcoming fiscal year, which starts July 1<sup>st</sup>, 2012.

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### Cash Flow

Cash flow is critical to any Town's operations, enabling it to:

- Meet its payroll obligations;
- Pay the many vendors who provide occasional or regular services to the Town and pay existing short and long-term debt;
- Determine the amount of funds available to be invested, the length of those investments and the estimated investment income.

In the event that cash flow becomes negative:

- Identify the amount needed for borrowed, the length of the loan, the type of borrowing instrument and the cost of that loan.

As seen in Exhibit 1, the End of Fiscal Year Cash Flow for the Town of Arlington from 1999 to 2011 has ranged from a low of **\$8.685M** to a high of **\$13.845M**. In the current Fiscal Year, the end of month balance has ranged from a low of **\$2.035M** to a high of **\$19,732,217**. These fluctuations demonstrate how volatile cash balances can be. The amount available at the end of any fiscal year is very important. The Town's payment of approximately **\$7,710,766** is due on July 1, 2012 to the Town's pension fund. In addition, bond payments of **\$9,269,093** to existing bondholders are expected to be due the first month of the fiscal year.

Exhibit 2 shows the end of year revenues from FY 2004 through FY 2011. Items such as excise tax; building permits and parking meter revenue are a reflection of the current state of the local economy while interest income is a reflection of the national economy. Interest income from General Fund revenue has been falling since the 4<sup>th</sup> quarter 2008 and is expected to decrease approximately 10% during FY 12. Factors impacting the economy have and will continue to have a profound impact on Town revenues. An example of this is the excise tax on automobiles. Should there be an increase in new automobiles that are registered in the Town of Arlington, then higher excise tax revenue will result. Conversely, the longer time owners hold onto their automobiles the less revenue is received from motor vehicle excise tax.





## Investments

### Up To 1 year

Receipts from the Real Estate Tax, Motor Vehicle Excise Tax, and other local receipts are needed to fund the Town's payroll and other obligations before any decision can be made regarding the amount of, type and length of deposit or investment.

Tax receipts are generally invested in short-term investment vehicles such as money market funds or CD's. The critical variable here is to predict, with as much certainty as possible, how long these monies can be invested before being needed to fund ongoing operations. The Treasurer's ability to generate investment income is dictated, in large part, by the market conditions that exist at the time the funds are available for investment. The expectation for the remainder of FY 12 is that short-term interest rates, the rates that the Treasurer commonly invests in, will remain at historically low rates. For FY13, it is expected that the short-term interest rates will be between .12% and .45%. The current short-term interest rates as provided by MMDT are at .31%. This will continue the very low rate of return that the Town has received since FY08. As shown in Exhibit 2 the projected interest income for FY12 is \$48,262 for Stabilization Funds and the General Fund, which is just approximately 10% less than the FY 11 amount.

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### 1 Year To 5 Years

Stabilization funds have the following characteristics:

- They are established by Town Meeting
- They are a reserve for a specific purpose,
- The withdrawals from a particular fund can be
  - At regularly scheduled intervals
  - Or can be allowed to be withdrawn at any time when it is required to meet the stabilization fund's individual requirements
- Stabilization funds are removed by a vote of Town Meeting

The Town's stabilization funds are invested in the Massachusetts Municipal Depository Trust (MMDT). The MMDT provides their municipal clients access to competitive money-market rates and is designed for maximum liquidity.

The Town's Stabilization Funds are the following:

Tip Fee Stabilization- 100% MMDT  
Municipal Building Trust Fund-100% MMDT  
Long-Term Stabilization Fund- 100% MMDT  
Article 75 Override Fund-100% MMDT

### STABILIZATION FUND BALANCES

<b>Municipal Building Trust Fund</b>	<b>\$834, 812.00</b>
<b>Long Term Stabilization Fund</b>	<b>\$2,560,561.00</b>
<b>Tip-Fee Stabilization Fund</b>	<b>\$563,369.00</b>
<b>Article 75 Override Fund</b>	<b>\$2,607,755.00</b>
<b>Total</b>	<b>\$6,566,497.00</b>

These balances are as of **3-31-12**

As shown in **Exhibit 3**, all Town Stabilization Funds are currently invested in the MMDT. The current rate is **.31%**. The MMDT interest rate is at historic lows and the Town of Arlington will generate the similar low return that has been realized in FY 2009 & FY 2010. The low interest rates are expected to continue throughout FY 2013.



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### Greater Than 5 Years

The Town's Trust Fund is made up of a variety of charitable trusts such as the John J. Bilafer-Arlington Citizen's Scholarship Foundation/Dollars for Scholars, Library Trusts, Cemetery Trusts, and Poor Widow's Trusts. The Trusts are combined into one investment vehicle, a balanced portfolio of equities, fixed income and cash. There are approximately 104 sub-accounts within the portfolio. The Trust Fund Portfolio is currently being managed by Boston Advisors with an active management approach that follows the guidelines of the Town of Arlington's Investment Policy developed by the Town Treasurer in 2007, modified in October 2009 and ratified by the Town's Trust Fund Commission, Library Trustees and Cemetery Commission. Boston Advisors performs the role of Investment Advisor, Investment Manager and custodian via Fidelity Investments.

As shown in Exhibit 4, the rate of return for the Trust Fund portfolio for the current fiscal year, from January 1, 2011 through December 31<sup>st</sup>, 2011, is 1.79%. The Trust fund portfolio is comprised only of the Town's charitable trusts and does not contain any of the Town's stabilization accounts.

## Town Debt

The current debt limit for the Town of Arlington is \$369,432,910. Massachusetts General Law dictates that the debt limit of any city or town is 5% of the equalized valuation for the entire town or city.

The total gross debt for the Town of Arlington is \$71,292,490. The gross debt includes the actual outstanding debt and debt that is authorized but not yet incurred. The actual debt for the Town of Arlington is \$61,017,291.

Within the \$61,017,291 there is \$24,730,530 of debt that is outside the debt limit. The \$24,730,530 is made up primarily for the debt exclusion for the rebuilding of the elementary schools. \$6.120M Bond Anticipation Notes (BAN) for the Stratton (\$620,664) and Thompson Schools (\$5,500,000) were issued in April 2012 at a Net Interest Cost of 0.179%. These BANs will be renewed in November 2012 with additional borrowing for the remainder of the Thompson School project included in that borrowing. Conversion to permanent financing will occur no later than November 2013 but could be earlier if market conditions are favorable.

The Town of Arlington borrows money via two different financial instruments: General Obligation Bonds and Bond Anticipatory Notes (BANs). The definition of a General Obligation Bond is: a written promise to pay a specified sum of money at a specified date, called the maturity date, together with periodic interest at a specified rate. A bond requires an opinion by bond counsel on its legal aspects and tax status. BANs are Bond Anticipation Notes that are a means of acquiring short-term financing that will be repaid by the subsequent issuance of bonds. The debt for the Symmes project has been permanently financed as of August 2011. For FY 2012 the principal and interest payment for Symmes is \$543,000.63. Principal and interest payments will continue to 2022 with total general obligation bond payments totaling \$7,836,906.46.

## Consolidated Finance Department

As all Town Meeting members are aware, last year's Town Meeting supported the Board of Selectmen and the Finance Committee request to have the Town Manager research the consolidation of the Town finance departments and deliver whatever recommendations the Town Manager believes is appropriate. The current recommendation by the Town Manager is to study the matter further by forming a study group/committee to provide in-depth analysis of the many financial and budgetary issues that were not fully analyzed by the Department of Revenue report of January 2012.

As I stated before the Board of Selectmen and the Finance Committee, I am recommending that the Town Manager's study group analyze the following specific area's: financial applications, budget process, administrative by-law changes, and personnel requirements for the proposed consolidated Finance Department. Additionally, I am recommending that the study group perform an in-depth review of the DOR's report prior to commencing the actual study

## Closing

It is important to note that the functioning of the Treasurers multi-faceted and complex operation is contingent on a number of factors. Most importantly, the resources of the Treasurer's office need to be maintained at a level sufficient to collect over \$124 Million in revenues that the Town is projected to collect in FY 2013. The Treasurer's operations are carefully integrated with the Assessors and I.T. departments. Critical time frames for completion of tasks requires that the Assessor, IT and Treasurer operations have the necessary resources to perform their mandated responsibilities. The Treasurer's office cannot issue tax bills unless the Assessor's office has provided assessments and commitments that are 100% accurate and delivered in sufficient time, so that the Treasurer's office can verify that information, and coordinate the printing and mailing of those bills with the IT and Postage departments. The IT department also provides critical support, throughout the year to the Treasurers.



As is the case in every years' Treasurer's report, the most important financial areas facing the Town of Arlington are presented so that its citizens, fellow elected officials, boards and committees, and other departments have the same basic information concerning Arlington's finances. It is my hope that this report provides that information.

The current debate regarding whether the Town's finance departments should be centralized under the control of the Town Manager and Board of Selectmen or retain its current organizational structure is reaching a very critical stage. As has been stated in other political debates "Everyone is entitled to their own opinion, but not their own facts". This quip highlights how important it will be for the Town Manager's study group to determine how the Town's financial units operate, the level of their efficiency and integration, as well as the number of and level of any shortcomings in our financial operations. Arlington's collection of \$142M by FY 2017, the processing of this revenue and all Town and School expenses, and analysis of the data for short and long-term planning, needs to be based on best practices and cost-effective solutions derived from an objective review of our current financial operations. I am recommending that all Town Meeting members unite in supporting a study that achieves these worthwhile and critical goals.



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# Report of the Treasurer to Town Meeting

## Exhibit 1

### Cash Flow 1999-2011

<u>End of FY</u>	<u>Amount</u>
1999	\$12,314,220
2000	\$13,845,318
2001	\$13,750,512
2002	\$13,030,037
2003	\$12,421,544
2004	\$12,715,291
2005	\$13,480,657
2006	\$12,362,344
2007	\$12,516,677
2008	\$13,070,276
2009	\$9,549,807
2010	\$8,685,100
2011	\$11,441,718

### FY 2012\*

	<u>Amount</u>
July	\$12,745,845
August	\$3,321,513
September	\$3,940,874
October	\$14,077,009
November	\$19,732,217
December	\$2,035,344
January	\$18,354,864
February	\$14,137,523
March	\$14,225,945
April	TBD
May	TBD
June	TBD
EOY	

\* End of Month





# Report of the Treasurer to Town Meeting

## Exhibit 2

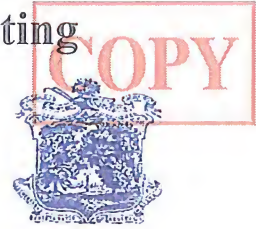
	FY2005 6/30/2005 \$13.4M	FY 2006 6/30/2006 \$12.4M	FY 2007 6/30/2007 \$12.5M	FY 2008 6/30/2008 \$13.1M	FY2009	FY2010	FY2011* 6/30/2011 \$11.4M	FY 2012* \$11.4M estimate
Net Cash Flow								
Interest Income-Genl Fund	\$555,964	\$1,015,232	\$1,479,598	\$1,030,217	\$422,842	\$97,176	\$55,430	\$50,150 estimate
Other Local Receipts	\$3,189,219	\$3,107,553	\$3,479,548	\$3,950,788	\$3,933,805	\$3,846,063	\$4,067,104	\$4,359,065 estimate
Real Estate	\$65,719,969	\$68,850,490	\$76,778,350	\$78,983,969	\$80,892,934	\$83,107,358	\$85,826,180	\$95,077,262
Excise	\$4,196,714	\$4,110,106	\$4,021,993	\$3,951,799	\$3,775,637	\$3,510,272	\$3,848,126	\$3,957,400 estimate
Parking	\$495,123	\$601,364	\$553,376	\$476,685	\$596,037	\$573,361	\$560,086	\$534,250 estimate

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		<b>Report of the Treasurer to Town Meeting</b>			
			<u><b>Exhibit 3</b></u>		
		<b>Town of Arlington Stabilization Funds</b>			
		<b>Municipal Building Trust Fund</b>	<b>Long Term Stabilization Fund</b>	<b>Art 75 Stabilization Fund</b>	<b>Tip Fee Stabilization Fund</b>
	<b>Balance 7/1/05</b>	\$2,648,550	\$402,255	\$0	\$1,708,297
	<b>Balance 7/1/06</b>	\$1,215,207	\$2,492,583	\$0	\$4,207,248
	<b>Balance 7/1/07</b>	\$1,335,483	\$2,579,023	\$0	\$3,723,911
	<b>Balance 7/1/08</b>	\$1,203,926	\$2,585,531	\$0	\$3,187,031
	<b>Balance 4/30/09</b>	\$953,341	\$2,501,592	\$0	\$2,555,376
	<b>Balance 12/30/09</b>	\$1,022,094	\$2,541,593	\$0	\$1,884,366
	<b>Balance 03/31/10</b>	\$1,023,194	\$2,544,100	\$0	\$1,887,060
	<b>Balance 4/30/11</b>	\$945,331	\$2,554,407	\$0	\$1,011,688
	<b>Balance 3/31/12</b>	\$834,812	\$2,559,946	\$2,560,651	\$563,369
		<b>Invested 100% in MMDT</b>	<b>Invested 100% in MMDT</b>	<b>Invested 100% in MMDT</b>	<b>Invested 100% in MMDT</b>

# Report of the Treasurer to Town Meeting



## Exhibit 4

Town of Arlington Trust Fund Portfolio Performance			
<u>Year</u>	<u>Rate of Return</u>	<u>Year</u>	<u>Rate of Return</u>
1993	7.75%	2001	-4.83%
1994	0.74%	2002	-8.24%
1995	26.28%	2003	20.65%
1996	14.97%	2004	9.85%
1997	20.05%	2005	5.29%
1998	17.58%	2006	11.83%
1999	13.58%	2007	0.55%
2000	-1.75%	2008	-14%
		2009	7.15%
		2010	12.57%
		2011	1.79%

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